

PD-ABS-126
104531

ACTION MEMORANDUM FOR THE MISSION DIRECTOR

FROM: David Johnston, SO Team Leader *[Signature]*
SUBJECT: Project Assistance Completion Report of the "Non-traditional Agricultural Export, Production and Marketing Project ", No. 519-0392
DATE: February 15, 2000

In accordance with ADS 203 (Managing for Results: Monitoring and Evaluating Performance) and USAID/El Salvador Policy (Mission Operation Manual, Chapters 680 and 770), attached is the Project Assistance Completion Report (PACR) for the "Non-traditional Agricultural Export, Production and Marketing Project ", No. 519-0392. The PACR summarizes accomplishments of the Project. It includes Lessons Learned, Conclusions and Recommendations.

RECOMMENDATION:

That you approve the attached Project Assistance Completion Report.

Approved *[Signature]*

Disapproved _____

Date *[Signature]* March 7, 2000

ATTACHMENTS:

Drafted by: RCuellar, SO4 *[Signature]* Date 2/15/2000
cut 2/17

Cleared by:

FBreen, CONT *[Signature]*

Date 2/24/00

atw CNorth, SDO *[Signature]*

Date 3/1/2000

BP Paige, OCG *[Signature]*

Date 3/1/2000

DMcFarland, DDIR *[Signature]*

Date 3.6.00

PROJECT ASSISTANCE COMPLETION REPORT

PROJECT 519-0392

NON-TRADITIONAL AGRICULTURAL EXPORT (NTAE), PRODUCTION AND MARKETING PROJECT

I- SUMMARY OF THE PROJECT

The United States Agency for International Development (USAID) entered into a Cooperative Agreement with the Cooperative League of the United States of America (CLUSA) on June 28, 1991, with a \$9 million life of the Project (LOP) funding (USAID contribution) to be expended over a period of five years. On July 1, 1996 the Project authorization funding was increased to \$10.9 million. CLUSA counterpart contribution was \$3.633 million. Original Project Assistance Completion Date (PACD) was June 30, 1996, extended to June 30, 1998.

The Project had five components: 1) NTAE Production Technology Transfer, 2) NTAE Marketing and Investment Promotion, 3) Strengthening Cooperative Agribusiness Management, 4) Training and Information Management, and 5) Administrative support.

The CLUSA/392 project fell under Strategic Objective #1 "Economic Growth", Results Package # 3 "Expanded Equitable Access to Financial, Technological and Marketing Services by the Rural Poor." The implicit Intermediate Result which applied to this project included, "Increased Coverage of Sustainable Secondary Level Organizations Providing Technological and Marketing Services."

A change over the life of the project concerned a shift away from a concentration on only non-traditional export crops to non-traditional crops in general, as well as a shift in non-traditional export crops grown under conventional conditions to those grown under 'organic' conditions. The former shift occurred as a result of CLUSA's discovery that a strong domestic market existed for crops which were traditionally imported, principally vegetable and fruit crops, which provided for lower overall costs and less risk to the farmer, while the latter occurred based on the mushrooming demand for 'organically' produced agricultural products in North America, Europe, and Japan where substantial market premiums or bonus payments can often be earned (principally coffee and, to a lesser extent, cocoa, sesame, and cashew nuts). This latter shift also led to the reduced use of chemical fertilizers and pesticides and to a positive impact on the environment and on the farmers of these crops and their families.

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II- GOAL AND PURPOSE OF THE PROJECT

A. Goal

The goal of the Project was to increase rural incomes in El Salvador through production of alternative crops and access to more lucrative markets.

B. Purpose

Increase production and marketing of non-traditional agricultural exports (NTAEs) by cooperatives and other participant small farmers.

III- FINANCIAL STATUS (as of January 31/2000)

El. No.	Element Description	Obligation	Expenditure	Pipeline
01	Salaries	\$ 3,123,175	\$3,123,175	
02	Fringe Benefits	\$ 1,214,979	\$1,214,979	
03	Consultant Fees	\$ 377,821	\$ 377,821	
04	Travel and Transportation	\$ 1,268,806	\$1,268,806	
05	Allowances	\$ 524,724	\$ 524,724	
06	Other Direct Costs	\$ 850,002	\$ 850,002	
07	Overhead	\$ 2,300,646	\$2,290,155	\$ 10,491*
08	Subordinate Agreements	\$ 132,724	\$ 132,724	
09	Procurement and Equipment	\$ 742,688	\$ 742,688	
10	G&A	\$ 248,167	\$ 248,167	
11	USAID Admin.	\$ 116,268	\$ 100,791	\$ 15,477**
	TOTALS	\$10,900,000	\$10,874,032	\$ 25,968

* Pending final AOC from Washington

** In process of deobligation

IV- PROJECT ACCOMPLISHMENTS

The USAID/El Salvador Mission went through a re-engineering process in 1996 which established strategic objectives for the 1997-2002 period. The CLUSA/392 project fell under Strategic Objective #1 "Economic Growth", Results Package # 3 "Expanded

Equitable Access to Financial, Technological and Marketing Services by the Rural Poor." The implicit Intermediate Result which applies to this project includes, "Increased Coverage of Sustainable Secondary Level Organizations Providing Technological and Marketing Services." As a result, the project presented a 'hybrid' set of indicators including those set forth in the Goal, Purpose, and Outputs of the original logical framework as shown in Table 2, and those of the new 're-engineered' Strategic Objective Results Package as shown in Table 1.

Table 1
Performance Indicators
as of 6/30/98

1. Results Framework	EOPS	Cumulative	%
1.1 Direct Beneficiaries	3,500	4,236	121%
1.1.1 Women	500	729	146%
1.1.2 Men	3,000	3,507	117%
1.2 Beneficiaries Through Secondary Organizations	21,500	21,359	99%
1.2.1 Women	3,500	7,004	200%
1.2.2 Men	18,000	14,355	80%
2. Intermediate Results			
2.1 Secondary Organizations	6	6	100%
2.2 Sustainable Sec. Orgs.	6	3	50%
2.3 Primary Organizations	24	32	133%
2.4 Primary Orgs. through Secondary Organizations	108	128	119%
3. Base Level Indicators			
3.1 Producers Affiliated to Primary Organizations	3,500	4,236	121%
3.1.1 Women	500	729	146%
3.1.2 Men	3,000	3,507	117%
3.2 Primary Orgs. Reaching Sustainability	15	23	153%
3.3 Primary Organization's Product Marketed (\$000)	9,600	10,795	112%
3.4 Product Marketed through Secondary Orgs. (\$000)	9,600	10,805	113%
3.5 Secondary Organization Product Marketed (\$000)	20,000	19,389	97%
3.6 Area (Ha.)	12,000	17,743	148%

Table 2
Employment Generation, Production, Net Earnings, and Area Planted
by Quarter for the Years 1995-1997

Year-Quarter	Employment		Production (000 cwt.)	Net Earnings (Colones)	Area			
	Men (Person Days)	Women (Person Days)			Planted (Manzanas)	Harvested	Assisted	
1995-	1	52,409	13,102	96,139	1,403,838	115	923	5,710
	2	221,552	54,370	32,020	8,937,742	5	1,376	5,712
	3	70,867	17,717	11,443	410,668	742	1,248	5,568
	4	1,454	364	2,103	(154,392)	339	57	5,618
1996-	1	114,410	28,678	69,058	1,935,191	70	2,020	5,745
	2	156,505	39,127	34,664	13,401,527	33	206	6,346
	3	1,933	441	1,003	228,190	264	237	3,878
	4	3,411	853	15,950	369,456	511	1,266	4,152
1997-	1	158,846	38,712	78,459	681,537	17	1,961	4,909
	2	161,338	45,389	40,432	12,813,613	30	1,293	4,909
	3	1,850	462	975	117,853	270	--	4,907
	4	1,426	356	3,895	178,711	245	--	5,298

V- PROJECT EVALUATIONS AND AUDITS

A. Evaluations

Mid-term Evaluation

The project was the subject of a mid-term evaluation in October 1995, nine months before the original PACD of June 1996. It was a comparative evaluation which looked at four of the Mission's attempts to support non-traditional agricultural exports through primary and secondary farmer organizations including both projects being implemented by CLUSA (392 and 394), the TECHNOSERVE project, and the DIVAGRO project being implemented by FUSADES. (In El Salvador traditional crops include conventionally grown coffee, sugar cane, cotton, corn, rice, beans, and sorghum.) The evaluation produced eight conclusions and four recommendations specific to CLUSA's 392 project. The following analysis discusses CLUSA's attempts to implement the recommendations.

Mid-term recommendations:

a) "Given that USAID assistance under the NTAE Production and Marketing Project beyond the current completion date of June 1996 is still being discussed, the team recommends that CLUSA plan for its orderly close. CLUSA should also begin to identify and assign responsibilities to all entities that will continue the organization's work after CLUSA leaves (e.g. technical assistance, marketing services, and institution building), and help improve linkages with outside service organizations to provide the required services on a commercial basis. CLUSA

should turn its full attention on leaving institutional structures behind and on making its clients as sustainable as possible, so that there are no shocks when CLUSA's services end."

Shortly after the Mid-Term Evaluation was completed the CLUSA project was, in fact, extended for two additional years and \$1.9 million was added to the project budget. Nevertheless, two and a half years later, for the most part, this recommendation remains valid. While six of the secondary organizations with which CLUSA had been working have been transferred to the CRECER project (SES/CORDES, CODEUSMI, CORALAMA, AGRODESA, COMUS, and the Las Marias coffee processing facility), and two more have become self-sufficient (Columbus and UCRAPROBEX), many of the primary producers' organizations are not as yet sustainable. The sustainability of PROEXSAL upon which many primary organizations depend for marketing services is still questionable.

Of the ten primary producer organizations visited during the course of the final evaluation, it is judged that four could pay for CLUSA-type technical assistance (If they would, or not, is another issue.). Four more could potentially pay for it after a few more agricultural seasons with continued technical assistance and training from CLUSA, and the remaining two would most likely never become sustainable.

Additionally, CLUSA's incursion into the field of organic farming beginning in 1994, will still require a great deal of support, promotion, and experience before it is embraced by a significant number of policy makers, growers, and consumers. Currently there are only a few organizations operating in the country, all international and domestic NGOs, which promote organic farming in spite of the significant advances which have already been achieved by CLUSA. A further analysis as to the reasons for this is presented below in the Findings Section to this evaluation.

In summary, while the original recommendation for an orderly close out of the project became moot once the two-year extension to the project was granted, the recommendation has again become valid at this point in time. The final evaluations stated that CLUSA's close out of the project has been as orderly as possible given the continuous demand for its services in the rural parts of the country.

"CLUSA should consider the entire farm as an enterprise rather than focus its efforts exclusively on NTAEs. It makes little sense for cooperatives to be making solid gains from NTAEs if they are using these to subsidize losses on traditional crops. In order to not detract CLUSA specialists from their NTAE work, much of this management development work could be done by sub-contracting with local experts."

This recommendation was not accepted by the CLUSA staff for many of the same reasons mentioned above under the conclusion concerning a "holistic" approach to each cooperative farm. A brief mention of these reasons follows:

- 1) Basic grains are simply not profitable under almost any circumstances and only make sense as a subsistence crop for farmers to feed their families;
- 2) Technical assistance and training for sugar cane is prohibited by CLUSA's cooperative agreement;
- 3) Technical assistance and training in traditional coffee production is already being provided by PROCAFE and others (At least coffee producers are charged US\$1.00/cwt. for this service whether they receive it or not.);
- 4) Working with traditional coffee would detract severely from CLUSA's emphasis on organic coffee; and,
- 5) CLUSA's administrative, managerial, and technical assistance and training have always addressed, or been applicable to, the entire farm enterprise.

This final evaluator concurred with the position of the CLUSA staff in rejecting the above recommendation and recommended that it be considered closed.

"The mission and role of the Salvadorean Producers and Exporters Organization (PROEXSAL) should be better defined. PROEXSAL, with only one year of existence, is still a developing organization, without a clear mission, and without a clearly defined role as an organization created to serve its members. Some of its activities may conflict or compete with its member organizations. CLUSA should help PROEXSAL develop a self-sufficiency plan."

Since the Mid-term Evaluation CLUSA placed strong emphasis on many of the issues raised in the above recommendation. Its mission and role have been better defined and much experience was gained over the past two and a half years. Furthermore, it has withdrawn from the previous activities which might have tended to compete with its members. A self-sufficiency plan has also been developed between CLUSA and PROEXSAL. In an attempt to increase volumes and therefore income to the organization, PROEXSAL has become more involved in supplying the local market with organically grown produce which is a less costly and less risky business than depending solely on non-traditional exports. Nevertheless, more work needs to be done before the organization can become totally self-sufficient.

In the opinion of the final evaluator, CLUSA attempted to comply with this Mid-Term Evaluation recommendation although it is noted that the future sustainability of PROEXSAL is still in doubt.

"The requirement to help create a national quality assurance program for NTAEs is viewed as impractical, and it is recommended that it be dropped from the Project."

The plan to create a national quality assurance program for NTAEs was, in fact, dropped in favor of alternative mechanisms. One of these entailed CLUSA's hiring of its own quality inspectors on an 'as needed' basis in the US ports of entry of Miami, Florida and McAllen, Texas. Prior to this, if USDA/APHIS inspectors found one problem in a container load of produce the entire container was returned to El Salvador or dumped at sea. During the period that the CLUSA inspectors were used (1993-96) no shipments were rejected or returned. This mechanism was dropped, however, in late 1996 due to a lack of funding.

Another initiative related to quality assurance of organic produce including coffee has involved the Organic Crop Improvement Association (OCIA) which currently certifies organic farms and their produce in the US and abroad, including El Salvador. The cost, however, can be relatively high and in the past only the larger primary organizations could afford to be involved. For example, there is a \$250 membership fee, a \$250 yearly per field inspection fee and an additional fee based on the volume of the crop being certified (\$.005 per cwt. in the case of organic coffee.). In order to lower these costs, CLUSA successfully lobbied the OCIA to recognize 'Community Growers' Groups' in El Salvador and elsewhere outside the US as one production unit which greatly lowered these costs to small individual farmers.

CLUSA's plan, however, was that the quality assurance program would be regional rather than national covering the six countries of Central America. CLUSA/El Salvador's sister project in Nicaragua is currently pursuing the regional concept in an attempt to reduce costs to the farmer.

In summary, the final evaluator noted that CLUSA did comply with, and went beyond, the above recommendations.

Technical Final Evaluation

This evaluation was carried out during the month of February 1998, four months before the PACD of the project, by AGRIDEC, through a consultant versed in El Salvador's agrarian sector and the methodological requirements of USAID.

Field trips were made to ten rural cooperatives or farmer organizations selected by the evaluator and CLUSA staff on the basis of geographical dispersion, type of land tenure, collective

basis of geographical dispersion, type of land tenure, collective or individual, and crop variety. Various past and present CLUSA staff members accompanied the evaluator on these field trips but did not take part in the actual interview process in an attempt to attain the highest level of objectivity possible.

Additionally, interviews were held with Mission personnel familiar with project activities, current and past CLUSA staff in El Salvador and the US, and representatives of ten organizations and two government ministries with which the project has interacted. An extensive review of written documentation concerning project activities was also conducted.

Conclusions and Recommendations

A. Project Success in Increasing Employment, Production, Earnings, and Area.

The project had a significant impact on the general economic indicators of employment generation, production, net earnings, and area planted.

The final evaluator recommended that any future Mission activities designed to increase employment, production, net earnings and area affected in rural areas attempt to include as much of the CLUSA/El Salvador methodology as possible.

B. Institutional Development, Management, and Organizational Strengthening.

The project was successful in improving the administrative capabilities of its assisted cooperatives. However, much remains to be done, especially at the primary level, but significant progress was accomplished.

The final evaluation recommended that any future Mission activity to support primary and secondary agricultural organizations include activities in institutional development, management, and organizational strengthening in addition to technical and marketing services.

C. Sustainability of Secondary Level Producers' Organizations.

While many of the secondary organizations with which the project worked have attained acceptable levels of sustainability, the situation with many primary level organizations is less certain. The sustainability of PROEXSAL has not as yet been achieved and will be critical to the survival of many primary organizations with which the project has worked over the past years.

Good leadership, including the ability to hire a manager, along with the type of land tenure are critical factors in whether or not an organization has the potential to become sustainable.

The final evaluation recommended that in the few months before project termination CLUSA concentrated its efforts on making PROEXSAL and its members as sustainable as possible.

D. Environmental Impact.

The project had a recognized impact on environmental issues including the reduced and more rational use of synthetic agro-chemicals, the use of agricultural byproducts which previously polluted the environment, the adoption of various agricultural techniques which lead to soil conservation, and in the promotion of specific governmental policies which will lead to a more rational use of agro-chemicals. There was also circumstantial evidence that the project was influential in creating public awareness as to the dangers of chemical-based agriculture and to the benefits of organically and 'environmentally friendly' produced agricultural commodities.

In the past four years CLUSA was able to help 'start the ball rolling' in terms of the environmental impact of chemical-based agriculture, but much more continued pressure, experimentation, and dissemination of knowledge and techniques is necessary. The first and most obvious recommendation from the final evaluation is that CLUSA's activities in organic and environmentally friendly agriculture be continued. If this is not possible, then whatever other mechanism the Mission chooses to implement its environmental programs should contain elements of the CLUSA methodology.

E. The Value of Soil and Other Types of Agronomic Testing.

While soil and compost testing has been performed in many cases, it has not been done in a consistent manner, nor has it been done over time to monitor the effects of soil amendments. Crop specific soil and compost testing has also not been done in a regularized and consistent manner.

Any future attempts to improve crop production should begin with extensive soil and soil amendment testing to determine nutrient levels and soil and amendment pH. Nutrient and pH levels should also be monitored on a regular basis.

F. Gender Impact.

Women benefitted to a significant degree from the project and its emphasis on NTAEs and NTAs. This was demonstrated in terms of

employment generated, training received, and to a lesser extent to the leadership roles they carry out. Women were the beneficiaries of approximately 20 percent of the jobs created by the project and received twelve percent of the training. While these percentages do not approximate the percentages for men, one must remember that for the most part these indicators for women in the past were close to zero.

In its attempts to reach a wider audience of women beneficiaries, especially those less educated, female technicians, especially those with training in basic education techniques, might make a significant difference in terms of the impact of technical assistance on those women.

Future Mission programs to reach the rural poor should include specific mechanisms which address the role of women, their participation in primary and secondary organizations, they derive from membership. Future projects should make every attempt to include one, or more, female technicians among its staff, and these women should be trained in basic education techniques.

G. Synergy of Project Activities.

It is most likely that much more synergy took place in the implementation of the project than was originally planned for in the project design. However, coordination between the Mission's two agriculturally oriented projects--CLUSA and CRECER--for all practical purposes does not take place.

Coordination/collaboration/synergy of all agriculturally related projects should be built in at the field level in the design of all future projects. This should include S.O.#4 environmental projects as well.

H. The Validity of the NTAE Strategy.

At this point in time the market demand for non-traditional organically produced exports is growing faster than supply resulting in significantly higher premiums paid for the product.

Organically grown non-traditionals also offer reduced production costs while at the same time demanding higher labor costs, although not higher than the savings incurred from not having to pay for imported agro-chemicals. This is generally true for both exports and for produce sold through the domestic market. Furthermore, it is ideally suited for small growers in that even during the transition period, while the farmer is waiting for organic certification, the reduced costs of production more than make up for the potential in reduced yields and gross income. In summary, the now adjusted NTAE strategy proposed in the original project design is even more valid today than it was ten years ago

when it was conceived. Of all the development strategies which the Mission might adopt for El Salvador's rural sector, the organic NTAE and NTA strategy is the one most likely to be successful.

The findings and conclusions for this issue are extremely clear. One of the best strategies for assistance to the country's rural poor is to continue with the CLUSA-developed methodology of producing organic NTAEs and NTAs.

I. Consistency with the Mission's Strategic Objective # 1.

The project has met and surpassed the results set forth in the Results Framework.

Given the progress of the project to date in terms of the Results Framework and the soundness of the CLUSA methodology, it is recommended that it be continued both in El Salvador and elsewhere.

Lessons Learned

A. Flexibility in Project Management.

Even the best of project designs need to be flexible enough to allow for changing situations in a project's environment. In the opinion of the evaluator, both project management as well as the Mission's project officers were willing to be flexible in the achievement of project objectives and it was this factor more than any other which has led to project success.

B. The 'Mistica' of the Job.

The Spanish word 'mistica' does not translate well into any one single word in English. In the Spanish language it combines the elements of dedication to work, a special way of relating to the people one is trying to assist, respect for those people, working long hours in often uncomfortable situations, and most of all, enjoying the work. Almost without exception, from the Minister of Agriculture, to the NGOs with which CLUSA collaborates, to the cooperatives and the members it serves, the word 'mistica' consistently came up whenever the respondents attempted to explain the relationship that they had had with CLUSA staff, or the reasons why they thought the CLUSA staff had been successful.

C. The Modality of the Working Environment.

This lesson learned has elements of both A and B above but is neither the result of flexibility nor of the personalities charged with project implementation. Rather it stems from an intentional project design decision to implement the project

through an NGO/PVO outside of government and outside of many of the public or private bureaucracies where it could have been located. CLUSA's role as an NGO/PVO working independently from other organizations, both public and private, is no doubt yet another reason for the success of the project.

D. The Role of an External Change Agent.

This project has contained a mixture of expatriate and local staff. In this case the expatriate staff has been limited to a senior manager combined with many outside technical experts. The role of an expatriate senior manager is seen as another critical element and causal factor of project success. If the person is allowed the flexibility, has the 'mística', and works outside of normal bureaucratic channels, he/she can often achieve the trust and confidence of the people being assisted, as well as the trust and confidence of 'power brokers' within the environment of a particular project. If the right person is chosen, an expatriate manager is also insulated from certain pressures be they societal, economic, or political allowing the person to work in an unfettered manner which can be extremely important in determining the success or failure of a project.

FINANCIAL AND ECONOMIC ANALYSIS (FINAL EVALUATION)

An economic-financial study was carried out by an independent consultant. It sought to provide some responses to the issues arising from the mid-term evaluation mainly related to the project's financial sustainability. The study was carried out during the months of February and March 1998. The purposes of the study were defined as follows:

To conduct a financial cash flow analysis from the farmer's perspective for representative or typical individual farms (cooperatives) to determine if production of new crops introduced under the project were viable and profitable once the project's assistance ended. The analysis focused on a sample of CLUSA activities in organic coffee and organic vegetables.

To carry out an economic analysis from the perspective of the project as a whole, to determine the economic rate of return to the overall project investment, using standard techniques of cost-benefit analysis. This included any non-quantifiable aspects of the analysis such as positive and negative externalities.

To carry out a sensitivity analysis for i) and ii) taking into account prices fluctuations for non-traditional agricultural export products, calculating the cash flow at high and low price assumptions.

To determine whether the project increased farmers income and

whether the financial cash flow motivated them to continue production of new crops/technologies introduced once the project ended.

CONCLUSIONS AND RECOMMENDATIONS

For the sample of cooperatives producing organic coffee and organic vegetables, the results of the cash flow analysis showed that with the introduction of the organic production technique, they obtained profits and were financially sustainable. In fact, the NPV and the B/C ratio were positive in all cases analyzed.

For the project as a whole, the economic evaluation showed that the project had a positive impact on the economy since it contributed to increment exports, wages, employment generation, etc.

Other positive externalities of the project included protection of the environment since production using the organic technique, avoided the use of chemical pesticides and insecticides that pollute the environment.

From the financial analysis is clear that organic production contributed to reduce production costs due to the low prices of organic inputs.

The organic production should be promoted at a national level taking into consideration the positive impact of this project from the financial, economic and environmental perspectives.

In order to promote diversification of exports and organic crops in El Salvador it is necessary to improve economic and social infrastructure in the rural areas, which implies greater investments in these areas. This should also include improvements in human capital formation, with education and training for the rural population as a key element that would allow them to take full advantage of technical assistance and to better identify market opportunities for their crops.

In El Salvador it is important to promote new production, marketing and organization approaches in the agricultural sector. In this context, the organic production offers an excellent opportunity for new crops, markets, etc.

B. Audits

Annual audits were performed in accordance with Government Accounting Office (GAO) standard.

VIII. COUNTERPART CONTRIBUTION

CLUSA reported in the last quarterly counterpart contribution report (June 1998), a contribution of \$4.353 million which was higher than the one required by the Cooperative Agreement (\$3.63 million).

IX- CONTINUING USAID POST-PROJECT MONITORING RESPONSIBILITIES

None